The Office Of
State Treasurer
Denise L. Nappier

News

FOR IMMEDIATE RELEASE
August 10, 2010

MEDIA ADVISORY

Treasurer Nappier released the following letter to State Representative Vincent Candelora and others regarding an item scheduled for a State Bond Commission meeting that was postponed by Governor Rell earlier today. The original communication to the Office of the Treasurer was received at 11 a.m. today by fax. The Treasurer's Office has always and will continue to be responsive in a timely way to all legislative concerns. We hope and trust this letter will address the issues articulated by Representative Candelora in his letter of August 10, 2010.

Contact: Christine Shaw, Director of Government relations, (860) 702-3211
Christine.shaw@ct.gov

DENISE L. NAPPIER
TREASURER

State of Connecticut
Office of the Treasurer

HOWARD G. RIFKIN
DEPUTY TREASURER

August 10, 2010

VIA FACSIMILE

The Honorable Vincent J. Candelora
House Ranking Member, Finance, Revenue & Bonding Committee
State Capitol
Hartford, CT 06106-1591

Dear Representative Candelora,

I am responding to your letter of earlier today and the issues you raised related to the issuance of $520 million in GO bonds, an item on the August 11th agenda for the State Bond Commission. It is unfortunate that you chose 11 a.m. the day before the scheduled Bond Commission meeting to raise these important issues, which ultimately led to Governor Rell feeling the need to postpone this critical meeting.

As a threshold matter, you should know that my administration manages cash and debt in a way that has been recognized by the rating agencies as prudent and responsible. The fact is that Connecticut does not have a cash flow problem, unlike other states, because of our proactive approach to managing the State's cash and debt.

With that said, you know that the State Treasurer is responsible for the issuance of bonds for capital projects that have been previously approved by the General Assembly and the Governor. And, you are correct that the Bond Commission authorized the sale of $1.8 billion in GO bonds or notes in Fiscal Year 2009 – some of which was issued as Bond Anticipation Notes (BANs). During the fiscal year, a total of $1.135 billion in long term GO bonds were issued to fund capital projects in accordance with our planned issuance schedule and budget. In addition, $580 million in BANs were issued at very low interest rates (ranging from .47% to 1.15%) to enhance the state's cash position. The remaining Bond Commission authority was utilized in Fiscal Year 2010.

As a general matter, BANs are issued in anticipation of future long term debt issuance and are expected to be repaid either with a new series of BANs or with long term bonds. The issuance of BANs was developed as a first line of defense in the plans developed to enhance the State's cash position in the spring of 2009 when the State's tax revenues fell off sharply and large budget deficits developed. That plan was reviewed and approved by the Governor and shared with the General Assembly. Had BANs not been used in FY 2009 to aid the State's overall cash position, other methods of cash flow borrowing (more than likely at higher interest rates) would have been necessary to ensure our ability to meet the State's obligations to municipalities, vendors and employees.

In summary, BANs provide a low cost method of enhancing the State's cash position. BANs do not increase the amount of long term debt issued in any year; rather, they are a tool for advancing proceeds of future long term debt issuances to fund projects that the General Assembly has already approved and on which the Governor has signed off.

With regard to your statement regarding the $393 million surplus projection for Fiscal Year 2010, and the implicit suggestion that the State's "apparent improved cash flow situation" ought to impact the repayment of outstanding BANs, you may recall that the General Assembly and Governor have already determined that $140 million of that amount will be used to fund operations for Fiscal Year 2011, and the balance will be used to reduce the planned issuance of Economic Recovery Revenues Bonds for Fiscal Year 2011 from $956 million to $703 million. Therefore, the majority of those funds will be used to reduce other planned debt issuance. As a result of previously approved legislative action, those monies are not available for any other purpose.

The State's current cash flow forecast and debt issuance schedule anticipate paying off the $580 million of previously issued BANs that come due in May and June of 2011 with long-term GO bonds in fulfillment of the planned long term debt issuance for Fiscal Year 2011. Therefore, at this time we do not anticipate issuing any new BANs. Paying off the existing BANs with long-term GO bonds does not require additional Bond Commission authority because such authority was previously granted in 2009 when the BANs were issued.

Our current cash forecast also assumes the receipt of $366 million in federal funds which have not yet been fully authorized by Congress, the issuance of the Economic Recovery Revenue Bonds as approved by the legislature, the issuance of $520 million of GO bonds before the end of the current calendar year (which is before the Bond Commission rescheduled for August 17th), as well as other assumptions consistent with the budget.

The $520 million GO bond sale authorization on the August Bond Commission agenda will be used to issue GO bonds this calendar year for school construction and other projects. Under our current cash flow assumptions, we expect to seek only $100 million in additional GO bond sale authority from the Bond Commission next spring.

Should the Bond Commission opt to delay allocating the $520 million of GO bonds, it would put the State in a tighter cash position through December of 2010. Our sound advice would be to avoid such a situation. Such a delay could also prevent us from taking advantage of the "Build America Bonds" authorized under the federal stimulus bill and the associated 35% federal interest subsidy which, in turn, could increase our future borrowing costs. That authority currently expires in December 2010.

I certainly appreciate your concerns in having all of the available information with which to make these important decisions. As Treasurer, I am acutely aware of the need to manage our State's cash and our debt program in a way that maximizes savings to the State and its taxpayers but ultimately follows the dictates of the law as prescribed by the General Assembly and approved by the Governor. Please know that my staff and I are available to brief you in person on these matters as we have offered to in the past.

Sincerely,

Denise L. Nappier
State Treasurer

Cc: Honorable M. Jodie Rell, Governor and Chairman
Honorable Brenda L. Sisco, Acting Secretary, Office of Policy and Management
Honorable Nancy Wyman, State Comptroller
Honorable Richard Blumenthal, Attorney General
Honorable Raeanne V. Curtis, Commissioner of the Department of Public Works
Honorable Eileen M. Daily, Co-Chair, Finance Revenue and Bond Committee
Honorable Cameron C. Staples, Co-Chair, Finance Revenue and Bonding Committee
Honorable Andrew W. Roraback, Ranking Minority Member, Finance Revenue and Bonding Committee